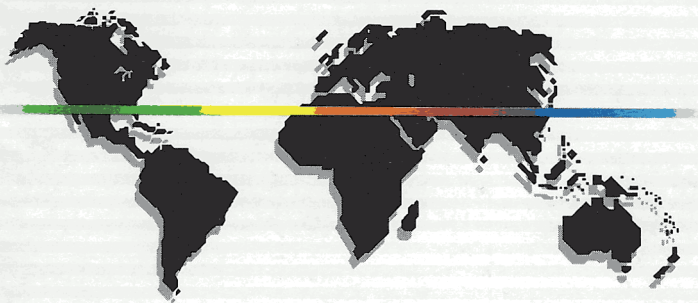




**Commodore International Limited**  
**1986 Third Quarter Report**



**March 31, 1986**

## To Our Shareholders

**N**et sales for the third fiscal quarter ended March 31, 1986 were \$182.3 million, an increase of 8% versus the year ago quarter sales of \$168.3 million.

The pretax loss for the March 1986 quarter was \$35.3 million, an increase of 18% from the year ago pretax loss of \$29.9 million. Included in the loss are restructuring charges and other unusual items amounting to \$22 million. The Company did not have the benefit of tax credits which reduced last year's quarterly loss. As a result, the net loss increased to \$36.7 million versus \$20.8 million in the prior year.

### Operations

Overseas operations continued to experience strong sales and profit growth, but the Company's U.S. operations turned in a disappointing performance based on high marketing expenses. While Commodore's Amiga sales were less than expected for the quarter, retail sales continue to show positive results and sales of the Commodore 64 product group exceeded expectations. Continuing strong momentum of Commodore 64 sales is expected with an enhanced model to be introduced shortly. The recent launch of the Amiga computer in Europe has generated strong orders. Expanded Amiga software availability, along with special promotions, should stimulate demand for Amiga through the fall.

### Restructuring

The Company is vigorously pursuing a program to streamline operations through facility rationalizations including divestiture of joint ventures and excess facilities, expense control and staff reduction and consolidation. Headcount has been reduced by 1100 employees or approximately 25% of the Company's worldwide workforce since December 1985. Approximately one half of these reductions took place during the March quarter, when direct labor was reduced by 20%, while recent reductions have focused on professional and staff support areas, reducing that group by 35%. These reductions have been accomplished

while the Company's sales revenues have grown. In addition, a comprehensive program of cost and expense controls has been implemented and this is expected to have a major favorable impact on operating results in the September quarter. With the recent expense reductions and expense controls implemented, and the launch costs of the Amiga and C128 behind us, we are striving for a break even in the June quarter and a return to profitability in the September quarter.

### Financial

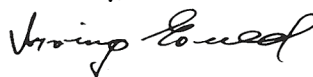
During the March quarter, Commodore continued to generate strong cash flow. Bank debt was reduced by \$22 million and our cash position at March 31, 1986 was \$23.4 million.

Commodore continues to have discussions with its major lenders, and while discussions are ongoing, the Company continues to have the support of its major lenders and the Company's worldwide credit facilities remain in place.

### Conclusion

Despite the disappointing earnings performance in the March quarter, positive action plans have been implemented which are directed to our goal of a profit turnaround. The challenges in the coming months are formidable, but with the hard work and dedication of our loyal employees we expect to assure a solid future for Commodore.

Sincerely,



Irving Gould  
Chairman of  
the Board



Thomas J. Rattigan  
President and  
Chief Executive Officer

May 23, 1986

**Condensed Consolidated Balance Sheets**  
Commodore International Limited and Subsidiaries  
(In Thousands of Dollars)

	March 31	
Unaudited	1986	1985
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and investments	\$ 23,400	\$ 11,000
Accounts receivable, net	118,600	198,800
Inventories:		
Raw materials and work-in-process	88,600	202,400
Finished goods	126,500	224,000
Income tax refunds	3,000	—
Prepaid expenses	13,500	9,200
Total current assets	373,600	645,400
Property and Equipment, net	95,900	125,500
Acquired Technology, net	25,700	31,600
Other Assets	13,700	7,300
	<b>\$508,900</b>	<b>\$809,800</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Bank debt	\$119,400	\$ 61,900
Debentures and mortgages	49,100	—
Current portion of long-term debt	8,600	7,500
Accounts payable and accrued liabilities	143,400	137,000
Taxes payable	51,500	45,000
Total current liabilities	372,000	251,400
Long-Term Debt	29,000	204,400
Deferred Income Taxes	6,300	8,500
Other Long-term Liabilities	—	4,500
<b>Shareholders' Equity</b>		
Capital stock	300	300
Contributed surplus	28,600	24,300
Retained earnings	87,700	340,800
Cumulative translation adjustments	(14,500)	(24,100)
Treasury stock	(500)	(300)
Total shareholders' equity	101,600	341,000
	<b>\$508,900</b>	<b>\$809,800</b>

The accompanying notes are an integral part of these statements.

**Condensed Consolidated Statements of Operations**

Commodore International Limited and Subsidiaries  
(In Thousands of Dollars, Except Per Share Amounts)

	For the Three Months Ended March 31		For the Nine Months Ended March 31	
Unaudited	1986	1985	1986	1985
<b>Net Sales</b>	\$ 182,300	\$ 168,300	\$ 680,700	\$ 751,200
Income (Loss) before Income Taxes	(35,300)	(29,900)	(124,900)	14,500
Provision (Benefit) for Income Taxes	1,400	(9,100)	4,200	4,400
<b>Net Income (Loss)</b>	\$ (36,700)	\$ (20,800)	\$ (129,100)	\$ 10,100
<b>Earnings (Loss) Per Share</b>	\$ (1.17)	\$ (.67)	\$ (4.12)	\$ .33
<b>Average Shares Outstanding</b>	31,278,000	31,306,000	31,278,000	31,097,000

The accompanying notes are an integral part of these statements.

# Condensed Consolidated Statements of Changes in Financial Position

Commodore International Limited and Subsidiaries

(In Thousands of Dollars)

	For the Nine Months Ended March 31	
Unaudited	1986	1985
<b>Working Capital Was Provided By (Used in):</b>		
Net income (loss)	\$(129,100)	\$ 10,100
Items not requiring working capital—		
Depreciation and amortization	29,600	19,000
Deferred income taxes and other	600	700
Total working capital provided by (used in) operations	(98,900)	29,800
Issuance of stock	—	9,900
Increase (decrease) in long-term debt	(5,100)	127,100
Net book value of property and equipment retired	25,800	4,800
Total working capital provided	(78,200)	171,600
<b>Working Capital Was Applied To:</b>		
Purchase of property and equipment	16,500	52,100
Acquisition of Amiga Computer, Inc.	—	31,600
Effect of exchange rate changes on working capital	(4,400)	2,000
Other, net	3,800	(3,600)
Total working capital applied	15,900	82,100
Increase (Decrease) in Working Capital	\$ (94,100)	\$ 89,500
<b>Analysis of Increase (Decrease) in Working Capital:</b>		
Increase (Decrease) in Current Assets—		
Cash and investments	\$ 15,000	\$ (12,100)
Accounts receivable	(24,000)	(39,000)
Inventories	(99,600)	118,100
Income tax refunds	(26,500)	—
Prepaid expenses	(500)	4,000
	(135,600)	71,000
Increase (Decrease) in Current Liabilities—		
Bank debt	(73,100)	57,700
Debentures and mortgages	9,900	—
Current portion of long-term debt	(800)	(300)
Accounts payable and accrued liabilities	29,900	(56,700)
Taxes payable	(7,400)	(19,200)
	(41,500)	(18,500)
Net Increase (Decrease) in Working Capital	\$ (94,100)	\$ 89,500
Working Capital, Beginning of Period	95,700	304,500
Working Capital, End of Period	\$ 1,600	\$ 394,000

The accompanying notes are an integral part of these statements.

## Notes to Condensed Consolidated Financial Statements

Commodore International Limited and Subsidiaries

March 31, 1986

1) These financial statements should be read in conjunction with the financial statements and related notes in the fiscal 1985 annual report to shareholders.

2) These financial statements are not audited but reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of financial position and results of operations for the periods shown. The results for the quarter are not necessarily indicative of the results expected for the fiscal year.

**brought to you by**

**<http://commodore.international/>**

**commodore international historical society**

**this document was generously donated by  
don greenbaum**



**Commodore International Limited**  
**1200 Wilson Drive**  
**West Chester, Pa. 19380**

First Class  
U.S. Postage  
PAID  
Permit #138  
Philadelphia, Pa.